

News from Ed Markey

United States Congress

Massachusetts Seventh District

FOR IMMEDIATE RELEASE

December 1, 2005

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Markey, Miller Call for GAO Investigation of Government Actions to Prevent Pension Fraud

*Congressmen Raise Questions About Whether Enough is Being Done to Protect Pensions
of Workers, Retirees*

Washington, DC - Representative Edward Markey (D-MA) and Representative George Miller (D-CA) called on the Government Accountability Office (GAO) to investigate whether the Federal government is effectively regulating the activities of pension funds and the firms that advise them and detecting and deterring fraud, conflicts-of-interest, and unlawful activities in the pension industry. In May 2005, the Securities and Exchange Commission (SEC) reported that “[P]ension consultants may steer clients to hire certain money managers and other vendors based on the pension consultant’s (or affiliate’s) other business relationships and receipt of fees from these firms, rather than because the money manager is best-suited to the client’s needs. Such a conflict can compromise the fiduciary duty that investment advisers owe their clients.” In August 2005, Rep. Markey and Rep. Miller wrote to the SEC and the Department of Labor (DOL) to seek answers about the SEC’s and DOL’s actions to investigate conflicts-of-interest and hidden financial arrangements and take appropriate action. They are now calling on the GAO to probe whether the SEC, DOL and the Pension Benefit Guaranty Corporation (PBGC), which has responsibility for pension plans once they have been terminated by companies, are taking the steps necessary to root out fraud and failure of pension advisors to disclose financial arrangements that can taint their objectivity to the detriment of workers who rely on their pension benefits during retirement.

“Massive failures of pension plans at United Airlines and other companies are placing an enormous strain on employees and retirees who worked hard to earn their pension benefits. The SEC report on conflicts-of-interest and secret financial deals between pension advisors, money managers and others is a wake-up call that more needs to be done to ensure that workers’ pensions are not put at risk by advisors offering conflicted recommendations masquerading as objective advice,” Rep. Markey said.

“American workers are already worried about having enough money to get them through their golden years, and with good reason. If money managers are giving American workers another reason to worry, then the Federal government must intercede on workers’ behalf,” said Miller, the senior Democrat on the House Education and the Workforce Committee. “The SEC report raises grave concerns that some pension consultants and money managers – who should act only with the pensioners’ best interests in mind – instead may be choosing investments or other deals to enrich themselves and their associates while putting workers’ retirement nest eggs in jeopardy. That is unacceptable, and it must stop.”

The PBGC has taken over nearly 4,000 defunct pension plans in the last three years and is saddled with a \$23 billion deficit. Once the PBGC takes over a plan, workers and retirees face severe cuts in their pension benefits, since PBGC caps the amount of annual pension earnings that a beneficiary can receive, even if the plan provided the beneficiary with more benefits before it was terminated and taken over by the PBGC.

“Thousands of workers who spent their entire careers playing by the rules and earning benefits they were counting on for retirement now are faced with drastic cuts to their nest eggs. The SEC has uncovered evidence that pension plans have not always received objective advice. Clearly, a thorough, comprehensive examination is needed to determine whether the Federal government is taking the actions necessary to protect workers and their pensions from advisors more interested in padding their own profit margins than providing impartial advice to keep pension plans on strong financial footing,” Rep. Markey concluded.

For a copy of the letter sent to the GAO - check out <http://www.house.gov/markey/>

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